

**ENERGY REGULATORY COMMISSION**

**R E S O L U T I O N   N o . 46**

*Dated September 27, 2001 Yerevan*

**ON THE OPERATION PROGRAM 2002 OF THE ROA ENERGY  
REGULATORY COMMISSION**

Being guided by Item a) of Article 19 of the RoA Energy Law, the Energy Regulatory Commission of the Republic of Armenia **resolves**:

To approve the Operation Program 2002 of the RoA Energy Regulatory Commission (see Attached).

**V. Movsesyan,**  
**Chairman of the ERC**

Approved by:  
The RoA ERC Resolution No. 46,  
dated September 27 2001

**OPERATION PROGRAM 2002  
OF THE ROA ENERGY REGULATORY COMMISSION**

The RoA energy Regulatory Commission (hereinafter, Commission) is a regulatory body of the Energy Sector, which acts within the framework of its jurisdiction in compliance with the Energy Law and other legal acts.

In conformance with the RoA Energy Law (March 7, 2001) within the framework of the essentially cleared authorities, the Commission implements the following functions:

- a) Operation licensing, determination of and supervision over License conditions;
- b) implementation of accounts, sub-accounts for the Licensees, according to the National Chart of Accounts, Laws and legal acts associated with the accounting;
- c) determination of model forms or mandatory terms of contracts between the Operation Licensees, as well as Electricity and Natural Gas Supply Contracts and Service Contracts signed with the customers, registration of Electricity and Natural Gas Import/Export Contracts;
- d) establishment of regulating tariffs for the electric, thermal energy and natural gas, for the Transmission and Distribution System Operator of the Energy Sector, for rendering of the Power Market Services, as well as maximum tariffs for the imported electricity and natural gas;
- e) development, implementation of rules of use and supply for the energy fuels, definition of Market Rules and Procedures;
- f) definition of legal acts under its jurisdiction, control over the implementation;
- g) definition of requirements for the quality of services;
- h) for the purpose to include or exclude investments into the future tariffs, study of development investment plans represented by persons having Operation Licenses;
- i) development of short-term and long-term forecast of tariffs for the energy fuel demand and of service tariffs.

The Commission organizes its activities with the help of its personnel (52 employees), which consists of the following structural departments:

Tariff Policy Department:

- Tariff Division
- Financial Analysis Division

Legal/License Monitoring Department:

- Legal/Licensing Division
- Licensed Operations Monitoring Division

Public Relations Department

Office Management

## **1. TARIFF POLICY**

The tariff policy basis contains such mechanisms of pricing, which will bring to the tariff development, which will be economically justified and correspondent to the social-economic situation of the country.

Economically justified tariffs shall provide the normal economic operation of the economic entities in the Energy Sector, at the same time shall afford them opportunities to implement modernization and long-term improvement projects. The idea of acceptance of tariffs by the society is directly related to the social-economic situation, which can essentially effect on such indicators, as order of payments, the demand and other.

Conditioned by transition stage in the economy, the low level of the population living, the current status of country's industry, the real picture of unemployment significantly complicate the development of tariff policy in the natural monopolistic sectors. The balance of contradictory economic interests in the Generator-Consumer multi-stage circuit appears to be the primary task of the regulatory body. And the logical solution of this task will impact not only the further improvement, but also the survivability of the sector. The clearness, transparency and stability requirements of tariff setting process bring additional tasks before the Commission.

The tariff policy currently implemented in the Energy Sector is based on the internationally accepted concept of revenue requirement. The revenue requirement includes the following articles:

- Operation and Maintenance Costs necessary to ensure safe and reliable operation of the energy utility
- settlement depreciation based on the realistic service period of useful and employed capital
- reasonable return on company's assets

Considering the principal requirement to suspend the tariff increase, the operation and maintenance costs shall include the least necessary repairing costs.

Taking into account the low usage level of generation capacities of the Energy Sector, the depreciation allocations are settled for the useful and applied assets in minimal rates (1,5÷2,5 % in relation to the overestimated initial cost).

The acceptable and attractive rate of return for private investments in the Energy Sector is estimated as 15-16%. It is supposed that such rate of return will stimulate involvement of investments into the generation sector. Anyway, the experience of Small HPPs speaks to the advantage of this approach. Up till now the Commission has issued Licenses for the construction of Small HPP with 24,25 MW installed capacity and 124,25 mln. kWh annual generation. Approximately one decade of Small HPPs is currently being in the process of construction.

These approaches will, naturally, undergo certain changes in parallel to the market relations development (including financial relations). In particular, after the formation of the financial market and establishment of the cost of the capital the reasonable rates of return will be formed.

One of the important principles of the tariff policy is flexibility of tariffs. Tariffs, which take into consideration the features of the consumer group, timing, geographical, climate and other factors, are able to ensure effective operation of the energy installations, stable increase of demand, forecasting of energy consumption profiles. Particularly, in case of combined heat and power generation, the implementation of flexible tariffs allows for more rapid response to sensitive Armenian market requirements (especially, related to the thermal energy).

One of the other principles in the applied tariff policy is differentiation of tariffs by the type of rendered services: energy delivery, cover of the pick load, reactive capacity generation, reserve capacity provision and other. As an initial step on the way to multi-part tariffs, we must estimate the fact of implementation of two-part tariff in the Generator (power stations) – Wholesale Buyer (“Armenergo”) circle. The tariff rates for electric energy and capacity include operation and maintenance variable costs (according to the amount of electricity) and fixed costs respectively.

The objects of the two-part tariff system implementation are as follows:

- a) to provide reimbursement of fixed costs (payroll, repairing and other), regardless of the amount of generated energy and the modes;
- b) to provide reimbursement of variable costs (fuel, water, chemicals and other), which directly depend on the amount of generated energy;
- c) to mitigate the impact on the revenue (damage) received by the generating companies of the unavoidable difference between the actually generated energy and the energy theoretically calculated in the tariff settlements;
- d) to refuse gradually from the disputable practice of establishment of energy generation limits (quotas);

e) to improve the level of appeal to dispatch instructions.

The two-part tariff system for large generation and transmission companies of the Energy Sector is employed from May 1, 2001. This system is not applied for Small HPPs yet, however, the analysis of results of the current operation of those plants will show whether it is feasible to implement the two-part tariff system for Small HPPs in 2002.

This two-part tariff system is not implemented yet for those distribution companies, which continue the wholesale purchasing at a single-part tariff (dram/kWh). Based on the results of 2002 the two-part tariff system will be as well expanded over the Distribution Companies and in the future – over the large industrial consumers. Delay in this process is conditioned by the absence of necessary calculation system for the electric capacity (kWh), which will be established in the near future.

As a result of planning changes of electric energy whole sale market, tariff system will also undergo changes. Parallel with the implementation of the new Market structure, it will be necessary to implement new types of tariffs for the Sector separate services during the year 2002. Units (system operator, Settlement Center, Contractual Center) conducting those services have already been formed but, so far are acting within “Armenergo” CJSC.

After the adoption of the RoA “Energy Law” and “EDC Privatization Law”, separation of electricity distribution and supply functions as well as development of the corresponding method of tariff calculation has become an urgent issue. There is also a need for new methodology for the cost determination for electricity supply to the subconsumers by the consumers and their compensation by the Distribution Companies.

Tariff policy of natural gas sector will undergo some changes. It is planning to separate gas transportation, distribution and supply functions and to regulate connection issues of new subscribers defining corresponding tariffs.

Based on the RoA “Energy Law” provisions on effective usage of domestic energy reserves, from the year 2002 the Commission is planning to review existing marginal (3 US cent/kWh without VAT) generation tariff for small HPPs, which encouraged construction of the most effective small HPPs with the usage of existing substructures. Increase of that marginal tariff in about 1,3-1,5 times will contribute to the involvement of private investments in the construction of the HPPs on the small rivers, which require much more investments.

Beginning from the year 2000, involvement of private investors is perceptible in the above mentioned sphere having incidents of clashes with interested parties. For that reason the Commission is planning to conduct the following actions during the year 2002:

- To undertake necessary actions jointly with the RoA Ministry of Energy to give to the “Development scheme of the RoA SHPPs” the status of State or Governmental program.
- To complete development criteria for Qualification Bid for SHPPs construction by the private investors on the small rivers.
- To undertake development of Tender conditions and procedure of SHPPs construction bids.

In the year 2002, entry of a wholly new type of generators for the RoA is anticipating into the Power Sector regarding the Wind Power Network (connected with the whole Power Sector), two years resource analysis of which has disclosed at least 3 plateaus (Sotk, Pushkin and Karaghach mountain passage) in which the installation of about 150-160 MW capacities is considered to be economically realistic. Wind Power has some peculiarities either regarding the tariff formation or legal regulation, which should be taken into account in the process of development of corresponding normative documents. The RoA “Energy Law” creates favourable conditions for the sell of electricity generated based on the energy regeneration sources in the long-term prospective. In case of favourable conditions of tariff and license system, investment flow is truly realistic in this sphere.

## **2. LICENSING AND CONTROL OF LICENSED ACTIVITY**

In accordance with the RoA “Energy Law”, Power Sector regulation is a part of the State policy, which is conducted by the Commission.

Based on the primary regulatory principles stated in the Law, the Commission conducts balancing of the interests of consumers and entities realizing activities in the Power Sector, excluding discrimination against consumers or against any licensed entity. Those operations are conducted by the main regulatory recourses: Power Sector activity licensing, definition of provisions and control of activity license.

Balancing policy conducted by the Commission in the license system is one of the factors, due to which investments particularly in the construction sphere of SHPPs have significantly increased. Analyzing experience acquired in the licensed activity and taking into account developing peculiarities of that sphere, the Commission aims at simplification of licensing process trying to decrease the number of the required documents emphasizing on the performance of the license provisions based on the monitoring results conducting by the Commission. This will compel economic entities to have more responsibility for the organization and realization of the licensing activity.

Taking into consideration that the Licensee is given the list of the legal acts and laws defining obligatory requirements and provisions of the license together with the activity license in compliance with the RoA “Law on License”, the Commission adjusts normative technical and legal issues of the necessary permissions regarding the licensing process based on the own studies and analyses. The mentioned operations will allow to adjust and regulate as much as possible the list of the

necessary permissions defined by the RoA legislation for the economic entities that wish to make investments in the Power Sector, reducing duration of getting permission and the total amount of the state payments/payments for services/.

During the year 2002, cooperating with the other state bodies, the operations that will be targeted to the state control of activities of economic entities and adjustment of its ways of realization will be held, aiming at specification of dispersion of the limits, forms and schedules of the state control. The Commission finds necessary to work out the conceptual approach on Power Sector development, the base of which will be sub-legislative acts presently effective throughout the RoA regarding that sphere. Availability of that document will be more useful for the Power Sector development programs.

The Commission develops a new procedure for licensing activity in the Power Sector, where the provisions stated in the RoA “Energy Law” will be taken into account for the purpose of maintaining of the RoA Power Sector independence and particularly to contribute to the effective usage of alternative and regenerating sources of energy and to the application of economic and legal mechanisms directed to that purpose.

In the year 2002, the Commission will pay attention to the adjustment of requirements regarding the service quality of the Distribution Companies.

Next year based on the RoA “Energy Law”, the Commission will develop a range of normative acts, particularly rules of Power Market, procedures on approval of the investment development projects, tariff definition and review, application of penalties and procedures on the discussions of discrepancies arising between the Licensees.

The Commission will continue to control the performance of the license provisions conducted by the Licensees, which is necessary regarding the provision of competitive environment in the Power Market, security of the Power Sector and increase of the transaction discipline of the licensed companies. Monitoring conducting by the Commission allows to regulate and to follow the process of purposeful acquisition of fixed assets by the licensed companies, to contribute to the technical refurbishment process of the companies encouraging implementation of new technologies which save the energy or are effective and which are available in the International Market. Monitoring of the activity of the licensed companies is significant from the angle of the definition of the justified tariff, as it allows to adjust the main fixed assets of the licensed companies, to estimate maintenance and operational costs for ensuring necessary capacities in the Power Sector, the amounts of justified technical and commercial losses, amortization allocations which are included in the tariff and the profit base.

The Commission will also continue monitoring of financial-economic documents represented with license requests. The purpose is to estimate the amount of capital investments, indicators of maintenance and operational costs realistically. Analysis of the developing investment programs will be deepen, the purpose of which is to exclude the unexpected increase of tariff for electricity supplied to the consumers as well as to ensure reliable, safe and high quality supply of electricity in the future.

Based on the analysis of the reports represented by the economic companies will be estimated the quality of the services rendered, which will give an opportunity to undertake effective actions for prevention from unjustified electricity disconnections, to decrease the period of answering to the appeals, to compensate loss of the consumers which originated due to the insufficient quality of the supplied electricity.

For the purpose of conducting more detail and thorough monitoring of activity of the licensed companies, the Commission will continue to accomplish database systems regarding the available fixed assets of the companies and proposed new energy installations in the International Market.

After adoption of the new RoA “Energy Law”, based on the urgent regulation of legal field of the supplier-consumer relationships as well as based on the necessity to define the rights and obligations of the parties, temporary rules of supply and usage of thermal energy and natural gas. At present, investigating application principles of similar rules in different countries and taking into consideration requirements arising from the regulating market relations not comprised in the temporary rules, as well as comments and suggestions represented by the interested ministries, ministerial bodies, legal entities and individuals, the edited versions of those rules are being drafted and will be approved during the first semiannual period of the year 2002.

### **3. FINANCIAL ANALYSIS OF ACTIVITY OF LICENSED COMPANIES**

One of the primary issues of the Commission is financial analysis of activity of Power Sector licensed companies.

In accordance with the RoA “Energy Law”, Power Sector licensed companies represent reports on their activity in the ways and procedure defined by the RoA ERC.

Financial analysis of activity of the Power Sector companies is targeted to:

- Create necessary database for running tariff policy;
- Conduct supervision functions of licensing and licensed provisions;
- Estimate prediction on financial position and efficiency of Licensees’ activity.

In accordance with the brief analysis results of activity of the Power Sector companies for the year 2000, 5957,6 mln. kWh electric energy was generated in the RoA, 391,0 mln. kWh (66%) of which was used for ancillary needs of Generation Plants and 5566,6 mln. kWh as useful delivery from the plants (see Appendix 1). 5918,7 mln. kWh including 352,0 mln. kWh electricity inflow transmitted to the High Voltage Network. Technological losses in High Voltage Networks were 337,5 mln. kWh or 5,7%. Electricity delivery from High Voltage Network was 5581,2 mln. kWh: 4742,1 mln. kWh was supplied to the Distribution Companies, 24,2 mln. kWh direct to the consumers (economic needs of the plants) and 814.9 mln. kWh used as outflow and export. Actual losses in Distribution Companies were 1167,1 mln. kWh (in



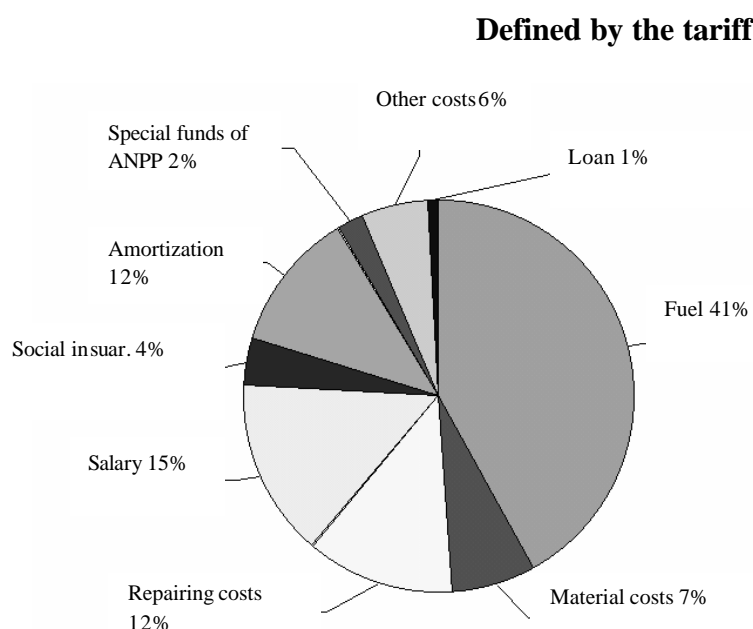
comparison with 24,6 % inflow), technological losses-539,3 mln.kWh (11,37%), above normative losses-627,78 mln. kWh (13,24%). Inventoried delivery from EDC-3575,01 mln.kWh.

Actual amount of electricity delivered by EDCs to the consumers-4202,79 mln.kWh, which is the electricity amount (4742,1 mln.kWh) purchased from “Armenergo” CJSC less inevitable (normative) technological losses-539,3 mln.kWh. Revenue of EDCs-75,83 billion. Drams (average tariff for electricity-21,22 Drams/kWh). That is, only due to the above normative losses the Sector did not receive 13,3 billion. Drams. Real loss of the Sector is more since the calculation was made based on the average tariff, while above normative losses really arise from the networks of 0,38 kV voltage, where the sale tariff is 25,0 Drams.

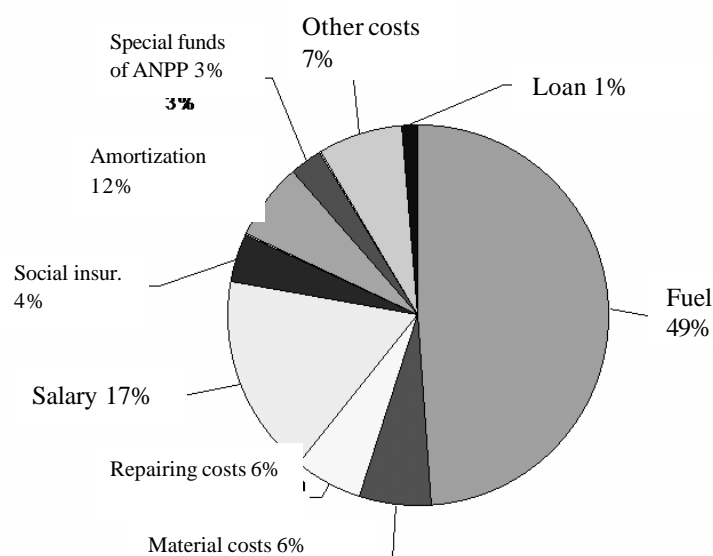
Actual collection of EDCs for the year 2000 was 59,1 billion. Drams or 78% of inventoried delivery or 66% of revenue expected for the electricity delivered to the consumers.

Thus, due to the above normative losses and nonpayments, EDCs and also the whole Sector did not receive about 30,0 mlrd.Drams. Due to the nonpayments and above normative losses the uncollected resources had their adverse influence on the financial position of the whole Power Sector companies.

The following is the structure of maintenance and operational costs of the Power Sector companies actually attributed (offset) to and defined by the tariff:



### Actually attributed



Due to the absence of financial resources mainly repairing and material (tangible) costs have not been paid. This fact has its influence on the reliable and safe generation of electricity as well as on the electricity transmission and distribution processes.

Due to the insufficient collections and above normative losses of EDCs, noncompliance with the obligations towards other sections of the Sector originated a kind of circle: EDC-“Armenergo” CJSC-HVN-Generation Plants-Natural Gaz Supply companies.

Thus, elimination of the mentioned issues available in the EDCs is an urgent problem, since postponement of the elimination activities of the problems can have heavy consequences not only on the Power Sector but also on the whole RoA economy.

The actual and expected balance sheets for the year 200-2001 as well as the planned balance sheet for the thermal energy and natural gas for the year 2001 are represented in Appendices 2 and 3.

The process of improvement of financial analysis will be continued in the Commission. It is important to harmonize this financial analysis with the new RoA “Energy Law” and with the new implemented market rules. Particularly, a supervision system of financial analysis should be developed which will comprise a system of new accounts and subaccounts which will be in compliance with the national Chart of Accounts and will relate to the regulation processes as well as will comprise requirements regarding the accounting policy and disclosure.

Implementation of new accounts and subaccounts relating to the regulation will enhance the supervision of the licensed activity. Simultaneous with the implementation of the new Accounting Standards of the Republic of Armenia and with the mentioned Chart of Accounts, new forms and orders on the filling of the new forms of financial statements and financial information will be developed and also new methods of financial analysis will be implemented.

Development of new models of financial supervision and analysis will be targeted to the improvement of preparative methods and rules of financial statements and harmonization of regulatory principles.

In the year 2002, one of the primary issues will be development and implementation of procedures on the audit of the Licensees' activity targeted to the adjustment of authenticity of financial statements and financial information authorized by the RoA "Energy Law". Due to the conducting audit of the licensed activity, authenticity level of information represented in the Licensees' financial statements and accounting discipline will enhance. Simultaneously, consistent operation directed to the clarification of accounting principles (from the angle of regulation) to the corresponding specialists of the companies will be continued.

In conducting the above mentioned arrangements, experience of the regulatory bodies and specialists of other countries will also be used.

#### **4. IMPLEMENTATION OF THE RoA POWER MARKET**

Formation of the RoA Power Market is one of the extremely important factors with regard to structural improvement of Power Sector and is targeted to the creation of unified system, which will ensure joint activity of companies of different owners. The system will conduct the following activities:

- a) To ensure equal conditions for activity of each entity;
- b) To ensure safety, reliability and technical unification of the system;
- c) To ensure reliable electricity supply to customers based on established tariffs today and in the future;
- d) To enhance responsibility level of each entity;
- e) To ensure equal competitive field for acting or for newly acting electricity generation plants;
- f) To ensure financial stability of the sector, which is one of the main guarantees for private investments;
- g) To contribute to the provision of regulation and transparency of financial flows, for which necessary preconditions will be created only in case of 100% payment (defined by the Law) by the Distribution Companies.

A wide range of preparatory operations are necessary for Power Market implementation, since market availability means material amendments of contractual relationships and implementation of wholly new system of economic management and regulation.

During the current year and in the year 2002, the Commission shall develop and implement a range of new legal acts jointly with the Power Market members.

The following is the list of the names and description of the primary legal acts, which shall regulate Power Market members relationships:

***Pool Agreement-*** Establishes organizational structure, payment mechanisms of the Market, adjusts rights and obligations of the contractual parties, creates Power Market Members Union.

***Tripartite Contract on Connection of Transmission Network (Transmission Contract)-*** Establishes mutually agreed operations, rules and procedures between the Consumer, System Operator and High Voltage Networks (HVN).

***Contract on System Operator Services-*** Establishes services rendering by the system operator including planning, operational and dispatch report services regarding the electricity wholesale market.

***Contract on Settlement Center Services-*** Establishes services rendering by the Settlement Center, operation and maintenance of database system, orders on cash flows for the Market Banker.

***Contract on Contractual Center Services-*** Establishes services rendering by the Contractual Center including systemization of internal market, holding negotiations in the regional market and representation of reports regarding that activity.

***Contract on Market Banker Services-*** Establishes services rendering by the Market Banker, organization of transit accounts, mechanisms of 100% payments by the Distribution Companies.

***Contract on Transmission Service-*** Establishes rules for using HVN installations by the Power Market members, as well as establishes

responsibility of HVN to ensure reliable and safe operation of transmission network.

***License for System Operator-***

Regulates dispatching of electricity generation and transmission.

***License for Contractual Center-***

Regulates signing issues of electricity generation and transmission contracts.

***License for Settlement Center-***

Establishes activity procedure and conditions of the body rendering settlement services to the Market.

***License for Electricity Import (Export)-***

Regulates import (export) functions of electricity.

***Main Provisions of the Market procedures-***

Establish requirements to be represented to the entities for being a full member of the Market at present phase.

The Commission must establish new tariffs for the bodies rendering services, such as Settlement Center, System Operator, Contractual Center and Market Banker. In addition to that, the Commission must approve Procedures regarding the electricity metering, financial calculation, operation of energy installations and others, which should be developed by the Market Members. Development process of the above mentioned documents has already begun, which is planning to accomplish in April of 2002. Availability of the package of documents regulating relationships between the bodies rendering services and Market Members will give an opportunity to pass to the improved regulated Power Market gradually.

## **5. OPERATIONS HELD WITH THE PUBLIC AND CONSUMERS**

In the process of operations with the public, the principle of the Commission is publicity and availability of Mass Media. Operations are targeted to the formation of public agreement and further improvement. The Commission undertakes widely discussion of serious issues, which obtain public feedback using as Mass Media as meetings with public, political and different unions of consumers.

Sessions of the Commissions are widely open. According to the already formed tradition, besides directly interested parties, Mass Media, representatives of the public organizations and unions also take part in the Commission's sessions.

The Commission's members and colloques participate in various public arrangements during which they try to explain the consumers their rights, as well as to interpret amendments made in the RoA "Energy Law" and legal acts emerging from the Law,

besides discussions and giving solutions to the appeals and issues via “urgent telephone” which are always in the center of the Commission’s attention.

In the year 2002 with direct participation of the Public Relations Division it is planning to conduct development of the plan of operations and its duly representation to the interested parties and the public with regard to the situations causing inevitable restrictions for natural gas supply, thermo energy and electricity.

Taking into account that the quantity of the printed materials with regard to the rights of consumers and Power Sector is not sufficient and is not always available for the population, the Commission is planning to publish popular sheets and brochures and to grant them to the population free of charge. In the year 2002 it is planning to publish popular brochures clarifying rights of the consumers, based on the fact that rules of supply and usage of energy carriers which regulate supplier-consumer relationships comprise compound legal and technical details which are not always understandable for wide range of consumers.

Operations with the population of the regions on clarifications of their rights are not sufficient and in the year 2002 it is necessary to activate operations targeted to the achievement of that goal.

As at 1 October 2001, 107 appeals and inquiries were received to the Commission 96 of which from the population, 11 from the legal entities. Analysis of the appeals and inquiries revealed that the problem is wrong recording of electricity, as well as issues on control, repairing and replacement of metering devices and unduly appeal of contractual obligations by the supplier. However, all appeals and inquiries have been discussed in the defined order and corresponding solution was given to them.

The Commission pays great attention to the clarification operations held with the Electricity Distribution Companies (EDC) with regard to the privatization issues, particularly to the formation methodology of tariff margin after the privatization.

For the purpose of study of the public opinion formed with regard to the EDC privatization and for the purpose of ensuring planning and making right target to the clarification operations to be held in the year 2002, inquiry sheet for the social study of the public opinion was formed, the distribution and development of its results is planning to conduct at the end of the year 2001 and during the year 2002 with the own support.

In the year 2002 it is planning to solve the issue having a separate column or TV hour in Mass Media for the purpose of releasing news or realizing clarification operation regularly.

## **6. COOPERATION**

The RoA ERC considers that training courses and the study of the international experience are very significant for the specialists and should be organized uninterruptedly. In order not to cease this process it is planning to continue cooperation with international organizations and regulation bodies of the other countries in the year 2002.

It is planning to continue and improve the cooperation with the Public Service Commission of the USA State Kentucky in the near future, taking into account the available issues, possibility of origination of new issues from the expected privatization of EDCs and necessity of their solution considering the multiannual experience of that body in the regulation system.

In the year 2002 the cooperation with PA Consulting Group which has a great experience in the US Power Sector will continue.

The purpose of the above mentioned cooperations is the study and application of the experience cumulated by the bodies which regulate monopoly sectors and implementation of market relations in the other countries. The study and application of the above mentioned experience is conducted in the form of separate courses under the sponsor of the USAID, World Bank and other organizations.

In the year 2002, within the framework of regulatory commissions partnership, the Commission will continue active cooperation with the Central and Eastern Europe and with 15 Eurasian countries. Chairman of the RoA ERC was elected as a presidency member of the mentioned partnership and chairman of the Tariff Committee.

## **7. FUNDING OF THE COMMISSION'S ACTIVITY**

Parallel with the decrease of direct possible influence of the state bodies on the economic activity of the privatized companies, the Commission's role targeted to the regulation activity (service tariffs, license provisions, financial-economic analyses and etc.) of the natural monopoly spheres will increase. Even in the conditions of open market relations, necessity of regulating functions of natural monopolies is an undeniable fact.

Taking into account experiences of many countries and for the purpose of ensuring financial independence of the Commission, for the effectiveness of the Commission's activity it is preferable to form necessary financial resources due to the allocations made in the defined order by the Power Sector economic entities and thus decreasing burden of the RoA State Budget. At first, it should be mentioned, that based on the amount of budgetary allocations planned for the Commission for the last years and particularly on the amount of actual allocations and on the prediction of its further increase, low amounts of allocations made by each economic entity will not have essential impact on the economic activity and, moreover, on the effective tariff.